

## **SURVIVOR BENEFIT PLAN (SBP) FACT SHEET**

1. **PURPOSE.** Retired pay stops on the date of the retired soldier's death. The Survivor Benefit Plan (SBP) was created by Congress in 1972 as the sole means for retirees to protect their surviving eligible family members against a total loss of retired income. SBP provides an inflation-protected monthly annuity to a retired soldier's survivors of up to 55 percent of the retiree's full retired pay. For this reason, SBP should be considered an integral part of your family's total estate planning. Although not designed to represent a retired soldier's total estate assets, decision concerning SBP coverage will profoundly affect the family's future financial well-being. The facts below are presented to help you and your spouse make a wise choice about participation in SBP before retirement.

2. **DECISION POINT.** SBP protection is afforded free of charge to all active duty soldier's with over 20 years of service. However, once a soldier retires, the cost of SBP protection is shared between the soldier and the government. Decision concerning SBP participation must be made in writing on or before the soldier's date of retirement. Except as outlined below, SBP elections are locked in for two years after retirement. In the third year of retirement, there is a one year window which you may cancel SBP. **Spousal concurrence is required.**

3. **AMOUNT OF ANNUITY/LEVEL OF COVERAGE.** The SBP annuity is a monthly check to the surviving beneficiaries following a participating retiree's death. The annuity amount to a surviving spouse is 55 percent of the base amount (dollar amount of retired pay selected at retirement) until the spouse reaches age 62; and 35 percent of the base amount thereafter. Participants may select one of the following three levels of coverage: (1) Full Retired Pay; (2) Minimum \$300; or (3) Any dollar amount between \$300 or full retired pay. Note: If full retired pay entitlement is less than \$300, full amount may be elected.

4. **BENEFICIARY OPTIONS.** SBP elections may cover one of the following beneficiary option categories:

a. Spouse Only. Covers current spouse. Annuity is payable for life, but is suspended if the surviving spouse remarries prior to age 55. SBP may be reinstated if the remarriage ends in death or divorce.

b. Spouse and Children. Covers current spouse and children (from current and previous marriages). The spouse is primary beneficiary. Only if the spouse dies or remarries prior to age 55 can the annuity be paid to eligible children in equal shares. Children remain eligible until age 18, or 22 if unmarried, full-time students. If physically or mentally incapacitated during years of eligibility, children remain eligible to receive the SBP annuity for life (as long as unmarried). Note: If an incapacitated child marries, and that marriage is annulled, SBP can be reinstated.

c. Child Only. Covers eligible children as defined above.

d. Former Spouse. Covers named former spouse. Coverage is identical to "spouse"

participation as in “a” above.

e. Former Spouse and Eligible Children. Covers former spouse and eligible children of the soldier’s marriage to that former spouse. Coverage is identical to “spouse and eligible children” coverage explained in “b” above.

f. Natural Person with an Insurable Interest. Coverage available only to unmarried soldiers with no eligible family members, or who have a sole dependent child. Annuity payable is 55 percent of retired pay minus SBP cost deductions. Note: A soldier must cover full retired pay with this election.

**5. SBP COSTS.** When a retiree participates in SBP, he/she chooses to receive a reduced amount of retired pay. The reduction in pay represents the SBP premium. Estimates for the available beneficiary categories are as follows:

a. Spouse or Former Spouse. Two costing methods exist: (1) 6.5 percent of the base amount; or (2) 2.5 percent of the “threshold” amount (in 2002, \$547) plus 10 percent of the remainder of the base amount. Both cost calculations are made for those who were on active duty on 1 Mar 1990, with the least expensive option given; this “grand fathering” provision is used by reserve and disability retirees also. In 2002, base amounts under \$1172 will cost less under the second cost method.

b. Spouse & Children or Former Spouse & Children. The addition of children adds a slight additional charge. The low cost of adding child coverage is due to their limited window of eligibility to receive the annuity. This cost is actually based on the soldier’s nearest age, spouse’s nearest age, and youngest child’s nearest age at retirement.

c. Children Only. Cost is actually based on the soldier’s nearest age and the youngest child’s nearest age at retirement. Since all eligible children are covered as primary beneficiaries under this option, the cost is slightly higher than when child coverage is added to spouse coverage as in the preceding paragraph.

d. Natural Person with an Insurable Interest. Cost is 10 percent of full retired pay plus 5 percent for each full five years younger the named beneficiary is than the retiring soldier. This cannot exceed 40 percent of gross retired pay.

## **6. SPOUSAL CONCURRENCE.**

a. The spouses of married retiring soldiers must provide their written concurrence in order for the soldier to elect:

(1) Spouse coverage, with a reduced base amount.

(2) Spouse and child coverage, with a reduced base amount.

(3) Child only coverage.

(4) Decline coverage.

b. If the spouse's written concurrence is not received by retirement date, the law directs that full spouse costs and coverage be automatically implemented for the soldier. If the soldier requested any form of child coverage, the defaulted election will be for spouse and children. If the spouse concurs with anything other than the soldier's desired election, a full election must be implemented. There is no provision to change this election following retirement date without evidence of government administrative error.

c. When full spouse coverage or full spouse and child coverage is elected, the spouse's concurrence is not necessary. However, the law requires that all spouses be counseled on the SBP options available to retiring soldiers and on the effects of those options.

d. SPOUSAL concurrence is not required when the soldier makes an election for a former spouse or former spouse and children. However, the law directs that the current spouse be notified of the soldier's election.

## **7. SECOND TIER OF ANNUITY AT AGE 62.**

a. SBP was created as a two-tiered system of benefits. That designed integration with Social Security retirement/survivor benefits allows SBP's cost to be reasonable since the Army subsidizes both the Social Security of all soldiers and the SBP accounts of participating soldiers.

b. If the retiree's death occurs before the surviving spouse is age 62, the annuity will be 55 percent of the base amount selected. After age 62, when the eligibility for a surviving spouse to receive the retired soldier's Social Security entitlement exists, the SBP annuity is reduced to 35 percent. The amount of Social Security entitlement considered is that amount based only on the retiree's active duty performed after 1957 and will equal or exceed the amount of reduction that occurs in SBP.

c. The forerunner of the Two-Tier system of after-62 benefits was the Social Security Offset method. Only those retiring soldiers who were retirement eligible on 2 October 1985 may be affected by this. See your Retirement Services Officer for details.

d. A retiring soldier who wishes to increase the post-62 SBP annuity level may do so by electing to participate in a program implemented by Congress in 1992--the Supplemental SBP (SSBP). This can increase the post-62 benefit level by 5, 10, 15 or 20 percent. In essence, this program allows one to "buy back" the 20 percent reduction which occurs at age 62, even though the reduction is replaced by Army-contributed Social Security benefits.

e. SSBP participants pay an additional premium for each 5 percent of coverage selected, which raises the post-62 annuity (35 percent) to 40, 45, 50 or 55 percent of the base amount. The additional premium is based on the retiring soldier's nearest age at retirement. Unlike regular SBP, these premiums consider the retiree's age and receive no government-subsidy. See your Retirement Services Officer for exact SSBP costs.

**8. CHANGES TO SBP ELECTIONS.** Except for rare and thoroughly documented cases, SBP elections in effect on date of retirement are considered permanent and irrevocable. Federal law does allow for corrections based on documented evidence of government administrative error. The modifications listed below are also allowable:

a. Premiums are suspended upon loss of beneficiary through death or divorce.

b. Upon divorce, coverage ends for the spouse at midnight on the date of divorce. A separate written request must be made to DFAS-Cleveland within one year of the divorce by the retiree or the former spouse in order to change the coverage to "former spouse" or "former spouse and children".

c. Unmarried soldiers with no eligible family members at retirement may elect to participate in the Plan if they later acquire dependents, provided they apply for the coverage within one year of acquiring the beneficiary. Beyond one year, requests for coverage will be denied.

d. If a retiree previously participated with "spouse" or "spouse and children" coverage, the following options exist upon remarriage:

(1) Elect to resume the original level of coverage.

(2) Elect, in writing, not to resume spouse coverage (the spouse will be notified and the spouse category is closed forever).

(3) Elect, in writing, to cover an increased base amount (retroactive payments must be made within one year of the remarriage).

If no action is taken to decline resumption of coverage for a previous spouse participant, spouse coverage is automatic upon the one-year anniversary, with costs owed accordingly.

e. SBP costs for child coverage are suspended when there is no longer an eligible child. They resume if an eligible child is later acquired.

**9. OTHER CONSIDERATIONS.** These points should be closely considered in reaching your decision regarding participation.

a. SBP premiums are tax-free (a benefit realized during a higher income tax bracket period of

withholding); SBP) annuities are taxed (calculated solely on the annuity amount, generally resulting in a much lower tax penalty).

- b. SBP costs are government-subsidized by 40 percent, on average.
- c. SBP annuities cannot be outlived; they provide lifetime benefits.
- d. SBP annuities receive the same cost-of-living adjustment (COLA) treatment as retired pay, which significantly protects against the erosion of future purchasing power due to inflation.
- e. Age, health and risk factors are not considered in determining SBP eligibility to participate or associated costs. All retiring soldiers are eligible.

10. **ADDITIONAL INFORMATION.** This fact sheet covers only SBP's basics and highlights some of its most important features. The pamphlet entitled, "SBP--The Simple Facts" is available from our RSO, as is the Army videotape, "SBP--Making the Right Decision," a valuation program which compares SBP with term insurance, and various other literature. Your RSO is available to provide individual, in-depth counseling and additional printed material to assist you in making this decision, which is vital to your family's future financial security.